

Message Text

PAGE 01 PHNOM 04408 01 OF 02 090239 Z

67

ACTION AID-59

INFO OCT-01 EA-11 ADP-00 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 IGA-02

IO-12 PA-03 PRS-01 USIA-12 RSR-01 /190 W

----- 010175

R 081205 Z MAY 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 1192

INFO AMEMBASSY SAIGON

C O N F I D E N T I A L SECTION 1 OF 2 PHNOM PENH 4408

FOR STATE/ AID

SAIGON PASS COOPER

E. O. 11652: GDS

TAGS: EFIN, CB

SUBJECT: ECONOMIC POLICIES

REF: (A) STATE 053540; (B) PHNOM PENH 4246; (C) PHNOM PENH 4180;
(D) PHNOM PENH 4108; (E) PHNOM PENH 3216

1. THE MISSION HAS HAD SEVERAL DISCUSSIONS WITH IMF REPRESENTATIVE EVERS AND VARIOUS GKR OFFICIALS REGARDING ECONOMIC POLICIES. MR. EVERS HAS INFORMED US THAT HE HAD GIVEN TO PRIME MINISTER HANG THUN HAK A SEVEN PAGE MEMORANDUM RECOMMENDING ACTION ON VARIOUS MATTERS THE DAY BEFORE THE RESIGNATION OF THE GOVERNMENT. EVERS IS WAITING FOR THE FORMATION OF A NEW GOVERNMENT TO SEE WHAT ACTION WILL BE TAKEN. ALTHOUGH EVERS IS UNWILLING TO GIVE US A COPY OF THE MEMORANDUM, HE HAS DISCUSSED IN A GENERAL WAY SEVERAL OF HIS PROPOSALS. THESE ARE REVIEWED BELOW TOGETHER WITH OUR DISCUSSIONS WITH VARIOUS GKR OFFICIALS ON SIMILAR MATTERS.

CONFIDENTIAL

PAGE 02 PHNOM 04408 01 OF 02 090239 Z

2. GKR BUDGET EXPENDITURES: AS REPORTED IN SEPTTEL (PHNOMPENH 4346) GKR EXPENDITURES FOR THE FIRST QUARTER OF CY 73 WERE 9,445 MILLION RIELS; 2,538 FROM THE FY72 NATIONAL BUDGET AND 6,907 FROM THE FY73 NATIONAL BUDGET. EVEN CONSIDERING

THAT FY 73 BUDGET EXPENDITURES ARE PROBABLY IN ARREARS BY ONE BILLION RIELS THE ANNUAL RATE IS PRESENTLY WITHIN MANAGEABLE BOUNDS. IF THE NUMBER OF EFFECTIVES REMAIN AS STATED IN REFERENCE D, THERE WILL BE FURTHER IMPROVEMENTS IN THE EXPENDITURE LEVEL, ALTHOUGH THE INCREASE IN SALARIES DISCUSSED IN PARAGRAPH 3 BELOW WILL MINIMIZE THIS IMPROVEMENT. WE INTEND TO CONTINUE TO RECOMMEND TO THE GKR THAT IT REDUCE THIS NUMBER FURTHER TO REFLECT ACTUAL ON- BOARD STRENGTH.

3. GOVERNMENT WAGES: EVERS PROPOSED A WAGE INCREASE OF 650 RIELS PER MONTH PER MAN TIED TO AN INCREASE IN THE PRICE OF RICE (SEE PARAGRAPH 4 BELOW). IN TALKS WITH ACTING MINISTER OF FINANCE KEO MONG KRY, BEFORE THE CSIGNATION OF THE GOVERNMENT, WE WERE LED TO BELIEVE THAT THE GKR WAS CONSIDERING AN INCREASE OF 1,000 RIELS PER MONTH PER MAN (ANNUAL BUDGETARY EXPENDITURE RATE OF 3.8 BILLION RIELS). THIS WAGE INCREASE WOULD ALSO BE TIED TO THE RICE PRICE INCREASE, AS WELL AS RATE INCREASES FOR ELECTRICITY AND WATER (SEE PARAGRAPH 5 BELOW). WE BELIEVE THAT THE GKR, WITH EVERS' CONCURRENCE, WILL OPT FOR THE 1,000 RIEL WAGE INCREASE. THIS COULD BE JUSTIFIED SOLELY ON THE RICE PRICE ESTIMATE, AND THE INCREASE IN REAL WAGES SINCE 1969 (A ROUGH ESTIMATE OF REAL CIVIL WAGES IN 1972 IS 60 PERCENT WHEN COMPARED WITH 1969.) WE DO NOT PLAN ON MAKING A POINT OF THE DECREASE IN REAL WAGES BUT RATHER URGE ACTION ON ELECTRICITY AND WATER RATES IF THE GKR DESIRES A WAGE INCREASE THAT WILL MORE THAN OFFSET THE INCREASE IN RICE PRICES.

4. RICE PRICES: THE RICE PRICES EVERS SUGGESTED WERE THE SAME AS THOSE PROPOSED BY THE MINISTRY OF FINANCE (REPORTED REFERENCE E, PARAGRAPH 2) IN EARLY APRIL WHICH INCLUDED NO CONTROL OVER NO 1-15 PERCENT AND A PRICE OF 3,700 RIELS PER 100 KG SACK FOR NO 1-25 PERCENT. SUBSEQUENT TALKS WITH KEO MONG KRY INDICATED THAT THE GKR MIGHT BE CONSIDERING TRYING TO CONTROL THE PRICE OF NO 1-15 PERCENT AS WELL AT A LEVEL OF 3,900 RIELS PER 100 KG SACK. WE WILL URGE THE NEW GOVERNMENT TO ACT AS SOON AS POSSIBLE ON THE RICE PRICES AND NOT TRY TO CONTROL NO 1-15 PERCENT. WE WILL POINT OUT THAT ANY PROFITS MADE ON THE SALE OF NO 1-15 PERCENT BY THE

CONFIDENTIAL

PAGE 03 PHNOM 04408 01 OF 02 090239 Z

GOVERNMENT CAN BE USED TO REDUCE THE NECESSARY PL 480 RICE SUBSIDY. FURTHER, PROBABLY THE ONLY WAY TO GET PRIVATE MERCHANTS TO RELEASE THEIR STOCKS IS TO LEAVE NO 1-15 PERCENT UNCONTROLLED.

5. ELECTRICITY AND WATER RATES: EVERS ALSO DISCUSSED THESE PRICES IN HIS MEMORANDUM. HE DID NOT SPECIFY EXACTLY WHAT THE INCREASES SHOULD BE, BUT RATHER LEFT IT TO THE KHMER AUTHORITIES TO JUDGE WHAT WOULD BE POSSIBLE. EVEN IF HE CONCURS IN A WAGE INCREASE HIGHER THAN HE RECOMMENDED IN HIS MEMORANDUM, WE HAVE BEEN LED TO BELIEVE EVERS WILL ACCEPT WHATEVER ACTION THE GKR DECIDES TO TAKE WITH RESPECT TO ELECTRICITY AND WATER. IN DISCUSSING THE PRICING PROBLEM WITH THE ACTING MINISTER OF FINANCE, IT APPEARS THAT THE GKR WAS CONSIDERING ONLY A 100 PERCENT INCREASE

FOLLOWED AT SOME LATER UNSPECIFIED DATE BY ANOTHER 100 PERCENT INCREASE. THIS WOULD, IF ACCOMPLISHED, RAISE RATES BY 300 PERCENT WHICH IS STILL BELOW THE AMOUNT NECESSARY TO PERMIT EDC TO BREAK EVEN, GIVEN RECENTLY INCREASED POL PRICES AND CURRENT EX-CHANGE RATES. WE STILL FEEL AT LEAST A 300 PERCENT INCREASE IS NECESSARY FOR A START AND THEN SUBSEQUENT CHANGES WOULD BE MINOR. IF THE GKR IS VERY RESISTANT TO THIS ON POLITICAL GROUNDS, WE WOULD STILL PRESS FOR A MINIMUM 200 PERCENT INCREASE.

CONFIDENTIAL
NMAFVVZCZADP000

PAGE 01 PHNOM 04408 02 OF 02 090236 Z

67
ACTION AID-59

INFO OCT-01 EA-11 ADP-00 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 IGA-02

IO-12 PA-03 PRS-01 USIA-12 RSR-01 /190 W
----- 010172

R 081205 Z MAY 73
FM AMEMBASSY PHNOM PENH
TO SECSTATE WASHDC 1193
INFO AMEMBASSY SAIGON

C O N F I D E N T I A L SECTION 2 OF 2 PHNOM PENH 4408

FOR STATE/ AID

SAIGON PASS COOPER

6. INFLATION: AS REPORTED REFERENCE C, THE GKR WORKING CLASS CONSUMER PRICE INDEX WAS UP 12 PERCENT IN MARCH OVER THE DECEMBER 1972 LEVEL. FURTHER, WE ANTICIPATE AN ADDITIONAL INCREASE IN APRIL OF 15 PERCENT. THIS WOULD MAKE A 30 PERCENT INCREASE SINCE DECEMBER DURING A TIME PERIOD WHEN PRICES ARE USUALLY STABLE OR DECLINING. EVEN IF THE MONEY SUPPLY INCREASES ONLY 30 PERCENT THIS YEAR, THE PROSPECTS OF KEEPING PRICE INCREASES UNDER 50 PERCENT, GIVEN THE NORMAL TREND IN PRICES RELATED TO SEASONAL SUPPLY PROBLEMS DURING THE LATTER PART OF THE YEAR, ARE PRESENTLY NOT VERY GOOD. THE MONEY SUPPLY HAS INCREASED 312 PERCENT AS OF MARCH FROM THE END OF 1969 WHILE PRICES HAVE ONLY INCREASED ABOUT 255 PERCENT DURING THE SAME PERIOD.

7. OTHER MATTERS

A. LUXURY GOODS: EVERS HAS TOLD US THAT HIS MEMORANDUM DISCUSSED AT LENGTH TAX ADMINISTRATION AND THE LUXURY GOODS PROBLEM. HE HAS POINTED OUT TO US THAT SALES ON THE NOUVEAU MARCHÉ FOR IMPORTS SINCE THE BAN ON LUXURY GOODS

ARE ABOUT 2/3 THE NORMAL WEEKLY RATE (US\$660,000), AND THAT
CONFIDENTIAL

PAGE 02 PHNOM 04408 02 OF 02 090236 Z

HE EXPECTS THE NEW HIGHER TAXES TO BE IMPLEMENTED AT WHICH
TIME SALES OF FX FOR LUXURY GOODS WOULD BE OPENED. HE HAS
DROPPED THE IDEA OF THE PRECOLLECTION OF TAXES FROM ADVANCE
DEPOSITS.

B. CIP : REFERENCE B, PARAGRAPH 5 COVERED THIS.

C. ADVANCE DEPOSITS: WITH THE MEASURES CONTEMPLATED FOR THE
CIP AND A TIGHTER CREDIT POLICY BEING IMPLEMENTED NOW (THE
REGULAR RESERVE REQUIREMENT WILL BE INCREASED SOON AND
PL480 DEMAND DEPOSITS WILL HAVE A SEPARATE RESERVE RE-
QUIREMENT IN THE NEIGHBORHOOD OF 90 PERCENT TO KEEP THEM
FROM ADVERSELY AFFECTING THE DOMESTIC CREDIT SITUATION) ,
WE BELIEVE SOME REDUCTION IN ADVANCE DEPOSITS IS DESIRABLE.
THIS SHOULD PUT PRESSURE ON THE EXCHANGE RATE WHERE IT
BELONGS.

D. INTEREST RATES: THE IMF MISSION THAT WAS HERE IN FEBRUARY
AND EVERS DO NOT CONSIDER INTEREST RATE INCREASES AS BEING
VERY EFFECTIVE AS A MEANS TO INCREASE SAVINGS AND DAMPEN
AGGREGATE DEMAND. THEY LOOK MORE AT THE INCREASE IN COSTS
THAT WOULD RESULT FROM HIGHER RATES.

E. MONETARY GAP: THE MISSION HAS STARTED A REVIEW OF THE
FIRST QUARTER AND PROJECTION FOR THE REMAINDER OF CY73.

8. WE WILL REVIEW THESE MATTERS AGAIN WITH EVERS. IF POSSIBLE
WE WOULD LIKE TO SEE A JOINT OR SEPARATE BUT COORDINATED APPROACH
TO THE NEW GOVERNMENT TO SECURE PROMPT AND EFFECTIVE ACTION. IF
THIS IS NOT AGREEABLE TO EVERS, THEN WE PROPOSE TO GIVE TO THE
GOVERNMENT OUR OWN MEMORANDUM WHICH WOULD BE IN THE NATURE OF AN
UPDATE OF OUR JANUARY PAPER.

SWANK

CONFIDENTIAL

NMAFVVZCZ

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 02 APR 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 08 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973PHNOM04408
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: PHNOM PENH
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730558/abqcdzvh.tel
Line Count: 198
Locator: TEXT ON-LINE
Office: n/a
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: (A) STATE 053540; (B) PHNOM PENH 4246; (C) PHNOM PENH 4180; (D) PHNOM PENH 4108; (E) PHNOM PENH 3216
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 20 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20-Nov-2001 by cunninfx>; APPROVED <14-Dec-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC POLICIES
TAGS: EFIN, CB
To: STATE INFO SAIGON
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005